

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING  
(PROPOSAL TEN)

Docket No. RM2015-19

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE  
INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES  
IN ANALYTICAL PRINCIPLES (PROPOSAL TEN)  
(August 12, 2015)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider a proposal to change analytical principles relating to the Postal Service's periodic reports. The proposal, relating to the proposed merger of Cost Segments 3 and 4 for purposes of constructing the CRA Report, is labeled Proposal Ten and is discussed in detail in the attachment to this Petition describing the proposal.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Pricing & Product Support

Eric P. Koetting

475 L'Enfant Plaza, S.W.  
Washington, D.C. 20260-1137  
(202) 277-6333  
August 12, 2015

## **PROPOSAL TEN**

### **MERGING COST SEGMENT 4 WITH COST SEGMENT 3**

#### **OBJECTIVE:**

The Postal Service proposes to merge Cost Segment 4, Clerks, CAG K and L Post Offices, together with Cost Segment 3, Clerks and Mail Handlers, CAG A-J Post Offices. The elimination of a distinct cost segment just for CAG K and L clerks would reduce the administrative burdens required for data collection, reporting and analysis with essentially no impact on product costs. Further, it would eliminate potential conflation of the clerk costs of CAG K and L post offices, and the costs of small post offices impacted by POSTPlan implementation.

#### **BACKGROUND:**

Cost Segment 4 separates clerk costs at certain small post offices (CAG K and L) from the costs in Cost Segment 3, Clerks and Mailhandlers (CAGs A-J). The historical reason for this separation was largely political, requiring costs for small post offices to be isolated and transparent when decisions to close some of them were under consideration. However, the fact that there may be just a postmaster who does all the tasks in the smallest post offices, and no clerks, has made it difficult to use Cost Segment 4 as an adequate measure of labor costs at those small offices of interest (because the postmaster costs would be reflected in Cost Segment 1).

Maintaining systems for two separate cost segments requires an administrative burden that does little to add to the quality of the results. In order to develop product costs for this separate cost segment, the In-Office Cost System (IOCS) has been required to maintain a separate panel of CAG K finance numbers that generally have only one clerk employee.<sup>1</sup> In the event that one of these offices no longer has its one clerk, no IOCS readings can be obtained from that office. As the number of IOCS readings in these CAG K offices on the panel declines, the sampling variation increases until the sampling panel can be refreshed. In addition, the data demonstrate that the distribution of product costs in Cost Segment 4 is not statistically significantly different than for other small offices, such as CAG H and J, leading to the question of the necessity and value of separately reporting Cost Segment 4.

Furthermore, the newly implemented POSTPlan, focused on small offices, has had potentially confusing impacts in both Cost Segments 3 and 4. The POSTPlan initiative, announced on May 9, 2012, involved the evaluation of retail hours at over 13,000 post offices. The net effect of this evaluation was a reduction of 43,000 operating hours per day at these 13,000 offices — a reduction of 43 percent.

The initial plan allowed the postmaster to stay on as a part-time postmaster, but at a significantly reduced salary if the post office was changing to a six-hour office. If the post office was going to change to a two- or four-hour office, the new job was to be staffed by a non-career postmaster relief. Over 5,000 other post offices have been designated as Level 18 and are having their work hours reviewed to determine whether

---

<sup>1</sup> Clerk costs have historically only occurred in CAG K; their appearance in CAG L is recent. Without the instant proposal, the current IOCS CAG K panel would have to be updated to incorporate CAG L, and other conforming changes would have to be made.

they should have their hours reduced as well, just like the 13,000 post offices in the original POSTPlan.

Thousands of Postmaster Reliefs who were working in POSTPlan post offices were subsequently subjected to reduction in force (RIF) action as a result of an APWU arbitration victory. In a ruling dated September 5, 2014, arbitrator Stephen B. Goldberg concluded that jobs in four- and six-hour post offices must be assigned to clerks – not Part-Time Postmasters or Postmaster Reliefs (PMRs).

The APWU ruling established a minimum of 3,000 new Level 6 career jobs in six-hour offices and Level 18 offices, and made them all full-time employees. The ruling also established more than 6,000 new Level 6 non-career jobs in four-hour offices, to be filled by Postal Support Employees (PSEs). The effect of these changes is that clerk costs will increase, while Postmaster costs will decrease.<sup>2</sup> The clerk cost effects occur in both CS3 and CS4, with the implication that analyzing the effects of POSTPlan may be complicated by including affected clerk costs in two distinct cost segments.

Furthermore, the recent increases in Cost Segment 4 costs are the result of reclassifying the positions and shifting them from postmasters (Cost Segment 1) to clerks (Cost Segments 3 and 4), and are not due to increases in total costs at the very small post offices.

**PROPOSAL:**

The Postal Service proposes to merge Cost Segment 4 with Cost Segment 3. Under this proposal, for FY15, the In-Office Cost System (IOCS) would include the data from readings at CAG K and L offices together with those from CAG H and J offices.

---

<sup>2</sup> The Postmaster cost changes do not necessitate a change to Cost Segment 1 methodology.

Similarly the trial balance dollars used as control totals for full-time and for part-time clerks in CAG K and L offices would be merged with the corresponding control totals for the CAG H/J strata. In the future, when the sampling panels are refreshed, CAGs H through L would be treated as one stratum.

All Cost Segment 4 Trial Balance Accounts would be merged into the corresponding 5-digit accounts in Cost Segment 3, creating a revised “Cost Segments 3 & 4” worksheet and eliminating the current Cost Segment 4 worksheet. The Cost Segment 3 account numbers and titles would be retained, and the CRA Component will be expanded to “253 & 42”. There would be conforming changes to some other Trial Balance worksheets, including the Summary, Personnel, and Reallocation Summary sheets, but the merger would not affect the “Outputs to CRA” and “Product Specific” tabs in the Trial Balance.

In the Cost Segment 3 B Workpapers, the CAG K and L clerk costs (Cost Segment 4) would be incorporated in the Trial Balance control for Cost Segment 3, and, more specifically, in the non-MODS office group total for cost pool formation. SAS code that specifically drops CAG K and L observations from IOCS for distribution key formation would be removed. These changes would serve to put the former Cost Segment 4 in with the non-MODS office group in Cost Segment 3, with the effect that mail processing, window service, and administrative activities at CAG K and L offices would be subject to the accepted cost methodology for the respective components. Cost Segment 3 output spreadsheets and other reports would be unchanged.

The only change to the CRA Cost Model would be to remove the lines in the control table on sheets Comp Master and DK Addends relating to Cost Segment 4.

**RATIONALE:**

Clerk costs in Cost Segment 4 have increased recently due to the fact that clerks have taken over former postmaster roles, although they are small relative to Cost Segment 3 non-MODS post office costs. Moreover, the CAG criterion for defining Cost Segment 4 is sufficiently different from the transaction volumes used in POSTPlan that CAG K costs are not a valid proxy for POSTPlan office costs.<sup>3</sup>

Generally, the cost classification rationale for Cost Segment 4 is similar to that for the Cost Segment 3 cost components, recognizing that CAG K and L clerks perform a mix of activities that correspond to the Cost Segment 3 mail processing, window service, and administrative components. However, the separate Cost Segment 4 analysis is based on much more limited IOCS sample data, with the effect that some products (which are undoubtedly present at the offices in some amounts) have no Cost Segment 4 tallies and hence zero measured costs in a given year. The Postal Service submits that incorporating Cost Segment 4 costs with other non-MODS post offices would provide a more reliable basis for attribution of costs, in line with the Cost Segment 3 methodology, particularly once the IOCS CAG H-L office panel is refreshed.

Merging CAG K and L clerk costs with the much larger CAG A-J costs in Cost Segment 3 would result in a better assessment of Postal Service clerk costs as a whole, and avoid the distortions caused by analyzing Cost Segment 4 costs separately.

**IMPACT:**

Table 1 shows the impact of this proposal on product costs.

---

<sup>3</sup> The CAGs were delineated by revenue amount, and the POSTPlan used transaction volume to designate post offices for reduction in hours.

**Table 1**  
**The Impact of merging CS4 costs with CS3 costs by product**

**COSTS FOR****CLERKS AND MAILHANDLERS**

	FY14	FY14	FY14	Merge CS4	Cost	Percent
	CS3 Only	CS4 Only	Total	with CS3	Difference	Difference
CLASS, SUBCLASS, OR SPECIAL SERVICE	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$000s)	%
<b>Market Dominant Products</b>						
<b>FIRST-CLASS MAIL</b>						
SINGLE-PIECE LETTERS	1,652,193	1,087	1,653,280	1,654,050	770	0.05%
SINGLE-PIECE CARDS	65,979	44	66,023	66,049	26	0.04%
PRESORT LETTERS	1,191,563	870	1,192,433	1,192,485	52	0.00%
PRESORT CARDS	41,926	31	41,957	41,941	(16)	-0.04%
SINGLE PIECE FLATS	376,410	255	376,665	376,605	(60)	-0.02%
PRESORT FLATS	187,986	138	188,124	188,049	(75)	-0.04%
PARCELS	224,390	143	224,533	224,504	(28)	-0.01%
<b>TOTAL FIRST-CLASS</b>	<b>3,740,448</b>	<b>2,568</b>	<b>3,743,016</b>	<b>3,743,684</b>	<b>668</b>	<b>0.02%</b>
<b>STANDARD MAIL</b>						
HIGH DENSITY & SATURATION LETTERS	73,576	93	73,669	73,580	(89)	-0.12%
HIGH DENSITY & SATURATION FLATS & PARCELS	76,323	96	76,419	76,408	(10)	-0.01%
EVERY DOOR DIRECT MAIL - RETAIL	1,814	2	1,816	1,827	11	0.60%
CARRIER ROUTE	318,311	407	318,718	318,371	(346)	-0.11%
LETTERS	1,371,274	1,708	1,372,982	1,372,528	(454)	-0.03%
FLATS	853,456	1,095	854,551	854,651	100	0.01%
NOT FLAT-MACHINABLES & PARCELS	43,169	55	43,224	43,177	(47)	-0.11%
<b>TOTAL STANDARD MAIL</b>	<b>2,737,922</b>	<b>3,456</b>	<b>2,741,378</b>	<b>2,740,542</b>	<b>(836)</b>	<b>-0.03%</b>
<b>PERIODICALS</b>						
IN COUNTY	17,027	-	17,027	17,244	218	1.28%
OUTSIDE COUNTY	638,995	-	638,995	639,110	115	0.02%
<b>TOTAL PERIODICALS</b>	<b>656,022</b>	<b>-</b>	<b>656,022</b>	<b>656,355</b>	<b>333</b>	<b>0.05%</b>
<b>PACKAGE SERVICES</b>						
SINGLE-PIECE PARCEL POST	-	-	-	-	-	
BOUND PRINTED MATTER FLATS	42,786	-	42,786	42,807	22	0.05%
BOUND PRINTED MATTER PARCELS	80,066	-	80,066	80,073	7	0.01%
MEDIA AND LIBRARY MAIL	110,134	-	110,134	110,150	16	0.01%
<b>TOTAL PACKAGE SERVICES</b>	<b>232,987</b>	<b>-</b>	<b>232,987</b>	<b>233,030</b>	<b>44</b>	<b>0.02%</b>
<b>US POSTAL SERVICE</b>	<b>157,526</b>	<b>1,959</b>	<b>159,485</b>	<b>158,064</b>	<b>(1,421)</b>	<b>-0.90%</b>
<b>FREE MAIL</b>	<b>13,852</b>	<b>-</b>	<b>13,852</b>	<b>13,866</b>	<b>14</b>	<b>0.10%</b>
<b>Total Domestic Market Dominant Mail</b>	<b>7,538,757</b>	<b>7,983</b>	<b>7,546,740</b>	<b>7,545,542</b>	<b>(1,198)</b>	<b>-0.02%</b>
<b>Ancillary Services</b>						
CERTIFIED	140,907	76	140,983	141,214	231	0.16%
COD	-	-	-	-	-	
INSURANCE	25,573	2	25,575	25,599	24	0.09%
REGISTRY	12,883	11	12,894	12,880	(13)	-0.10%
STAMPED ENVELOPES	3,533	-	3,533	3,546	13	0.37%
STAMPED CARDS	-	-	-	-	-	
OTHER ANCILLARY SERVICES	91,821	82	91,903	91,842	(61)	-0.07%
<b>Special Services</b>						
MONEY ORDERS	62,337	-	62,337	62,509	172	0.28%
POST OFFICE BOX	24,228	-	24,228	24,334	106	0.44%
CALLER SERVICE	5,979	-	5,979	5,986	7	0.12%
OTHER SPECIAL SERVICES	-	-	-	-	-	
<b>Total Domestic Market Dominant Services</b>	<b>367,262</b>	<b>171</b>	<b>367,433</b>	<b>367,911</b>	<b>478</b>	<b>0.13%</b>
<b>Total Domestic Market Dominant Costs</b>	<b>7,906,019</b>	<b>8,154</b>	<b>7,914,173</b>	<b>7,913,453</b>	<b>(720)</b>	<b>-0.01%</b>
<b>Total Domestic Competitive Costs</b>	<b>2,549,528</b>		<b>2,549,528</b>	<b>2,550,448</b>	<b>919</b>	<b>0.04%</b>
<b>INTERNATIONAL MAIL</b>	<b>407,406</b>	<b>-</b>	<b>407,406</b>	<b>407,427</b>	<b>21</b>	<b>0.01%</b>
<b>TOTAL VOLUME VARIABLE COSTS</b>	<b>10,862,954</b>	<b>8,154</b>	<b>10,871,108</b>	<b>10,871,328</b>	<b>220</b>	<b>0.00%</b>
<b>OTHER</b>	<b>2,070,364</b>	<b>5,126</b>	<b>2,075,490</b>	<b>2,073,858</b>	<b>(1,632)</b>	<b>-0.08%</b>
<b>GRAND TOTAL</b>	<b>12,933,317</b>	<b>13,280</b>	<b>12,946,597</b>	<b>12,945,185</b>	<b>(1,412)</b>	<b>-0.01%</b>

In the above table, the values in the first three columns are from USPS-FY14-32, CS03.xlsx sheet Outputs to CRA, columns D – I, and CS04.xlsx, sheet Outputs to CRA, as filed with the FY2014 ACR. The column labeled “Merge CS4 with CS3” is from sheet Outputs to CRA, columns D – I, in an Excel file (Prop.10.CS03\_MergeCS4.xlsx)

## PROPOSAL TEN

attached to this Petition electronically. Another spreadsheet attached electronically is Prop.10.I\_Forms\_MergeCS4.xlsx. There are no structural changes to the spreadsheets associated with this Proposal. The only changes are to the inputs. Any tab in Prop.10.I\_Forms\_MergeCS4.xlsx and Prop.10.CS03\_MergeCS4.xlsx that is colored GREEN contains inputs that have changed. The cells on these tabs with the changed inputs are also marked in green. In Prop.10.CS03\_MergeCS4.xlsx, tabs are in YELLOW where the changed inputs flow through to change the values. Individual cells are not necessarily color coded, since this would be nearly all the cells in those tabs.